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DIRECTORATE OF INTELLIGENCE

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Japan: Evolving Attitudes on MOSS Trade Talks

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Summary

Despite US press reports of widespread foot-dragging in Tokyo on pending bilateral trade issues, important segments of the Japanese bureaucracy have moved quickly to avert possible retaliation by addressing high-visibility import barriers in some designated market-oriented sector-specific (MOSS) areas. Domestic political and industry pressure is building, moreover, for even the conservative ministries responsible for the forestry and telecommunications sectors to adopt a more positive attitude toward solving some glaring problems. The stroke suffered by former Prime Minister Tanaka--Liberal Democratic Party (LDP) kingmaker and Nakasone ally--could in coming weeks, however, lead to intensified factional maneuvering. If the party's focus is turned inward, action on the trade front may be hindered.

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Buying the MOSS Approach

The disarray and confusion that characterized the Japanese bureaucracy's initial reaction to the MOSS approach gave way in February to a concerted effort by some ministries to remedy

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specific trade irritants identified by Washington. [redacted] Ministry of International Trade and Industry (MITI) and the Foreign Ministry opposed a sector-specific attack on bilateral trade problems, they--along with the Finance Ministry, a longtime supporter of sectoral, rather than macroeconomic, measures--now appear committed to making MOSS negotiations a success, at least in the short run. [redacted]

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We believe fear of US protectionism underlies this apparent conversion to the MOSS approach. [redacted]

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[redacted] The prospect of protectionist legislation strikes a raw nerve, particularly with MITI because its domestic constituencies profit from open US markets. Keidanren, Japan's big-business organization and spokesman for the country's most prominent exporters, has repeatedly called on the government to reduce tariffs and simplify import procedures. With extensive Japanese press coverage of Senator Danforth's investigation of import surcharges making the threat of retaliation more real, Keidanren renewed its liberalization demands on 26 February and specifically recommended concessions in the lumber and pharmaceuticals sectors. [redacted]

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Moving Recalcitrant Bureaucrats

Ministries such as Agriculture, Telecommunications, and Health and Welfare, whose traditional constituencies are less internationally minded than those of MITI, do not seem overly concerned about US threats. The ministries involved with agriculture and telecommunications, moreover, are politically powerful enough to enjoy a fair degree of independence in negotiations. Progress in the sectors under their control--forest products and telecommunications--has been disappointing thus far. In contrast, in late February the Health Ministry decided to end medical insurance practices that discriminate against a US dialysis equipment manufacturer. We suspect high-level LDP leaders, the Foreign Ministry, and groups such as Keidanren brought immense pressure to bear on the Ministry of Health and Welfare to remove this highly visible barrier to foreign products. [redacted]

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Similar domestic pressure is building to force officials in the telecommunications and, to a lesser extent, forest products sectors to acquiesce to some longstanding and well-defined US requests. For example, an internal government memo, dated in late February, indicates LDP faction leader and State Minister Komoto--an avowed opponent of the MOSS approach--is now pushing the Agriculture Ministry to present comprehensive measures to liberalize the entire agriculture sector. [redacted]

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MITI and industry groups also are pushing for quick finalization of telecommunications ordinances; their suggestions on draft ordinances released already have generally been along the same lines as those offered by US officials.

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Although prospects for movement on telecommunications and forest products have improved somewhat, the scope and timing of Tokyo's ultimate concessions will probably be disappointing. Agriculture Ministry officials are certain to stall as long, and give as little, as possible. Similarly, the Telecommunications Ministry's ongoing bureaucratic wrangles with MITI, as well as its insecurity about its international negotiating skills, will probably delay progress.

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growing high-level Japanese discontent with what is viewed as never-ending US trade demands.

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concessions made now, when the dollar is strong, will do little to narrow the trade imbalance. This growing sensitivity could well work against Japanese cooperation in addressing the subtler trade barriers that the MOSS approach is designed to identify and correct over the next several years.

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The Political Factor

The health of former Prime Minister Tanaka is the wild card that could affect Tokyo's action on import liberalization in the short and long run. Preliminary reports suggested the stroke he suffered on 27 February was mild and that he would be out of the hospital within a month. Later reports, however, disclose this was overly optimistic and that Tanaka may be hospitalized up to four months. If he is permanently incapacitated or dies, domestic politics will dominate the Japanese leadership's attention. MOSS negotiations as well as practically all other high-level decisionmaking will, at least temporarily, grind to a halt. For MOSS in particular, given his close links with the Telecommunications Ministry, Tanaka's death could also alter the internal bureaucratic power balance, creating new opportunities and obstacles in that sector.

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JAPAN: TRADE SECTORS OF INTEREST TO THE UNITED STATES

<u>Sector</u>	<u>Action During February</u>	<u>Remaining Problem Areas</u>	<u>Prospects</u>
1. Telecommunications	US negotiators have received drafts of five of seven Cabinet orders and 58 of 72 ministerial ordinances governing the industry after NTT privatization. Telecommunications Ministry (MPT) has yielded to minor US demands on services and equipment approval.	Potential still exists for NTT to dominate market after 1 April, discouraging new entrants; both regulation of services and equipment certification system include red tape that could lead to discrimination against US suppliers.	Continued turf battles between MPT and MITI may delay concessions from Japanese, but MPT opposition will probably wane. MPT inexperience in negotiations may force concessions as US pressure continues and domestic pressure from MITI, industry, and the Prime Minister builds. US interests in market opening overlap with those of some Japanese groups. Keidanren supports easing standards and certification procedures as well as stricter antitrust supervision in order to safeguard prospects for new market entrants, for example.
2. Forest products	Bilateral talks on 25 February produced only recognition that views on tariff cuts are widely divergent.	Tariffs; nontariff barriers; protection of paper and pulp industry under depressed industries law.	Reports that Nakasone is willing to provide financial support to forest products industry if concessions are made to Washington and a 4.4-percent jump in housing starts in 1984 (the first gain in 6 years) provide a small glimmer of hope for increased imports. Substantial bureaucratic and industry opposition remains, however.
3. Medical equipment and pharmaceuticals	Health Ministry has agreed to end medical insurance practices that discriminate against US dialysis equipment manufacturers.	Refusal to accept foreign clinical test data; complex import approval procedures.	MHW study on the possible acceptance of foreign clinical test data is due the end of March. Keidanren is calling for simplification of import procedures, but Health Ministry claims it lacks the resources to make changes in the regulations.
4. Electronics	In response to USTR Brock's mid-February recommendation that computer parts be mutually eliminated, MITI Minister Murata suggested that tariffs on all electronics--not just computer parts--be removed.	Not yet defined. Both sides will poll industries to identify trade barriers and assess US competitiveness.	Next formal talks scheduled for end of March with issues not clearly defined but no confrontations probable in near term. MITI--with lead on electronics--favors action on MOSS. Will try to build on momentum already initiated during drafting of chip protection act and 1 March removal of semiconductor tariffs.

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